

**BLACK HAWK COUNTY SOLID WASTE
MANAGEMENT COMMISSION**

WATERLOO, IOWA

JUNE 30, 2004

Table of Contents

Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-6
Basic Financial Statements	
Statements of Net Assets	7
Statements of Revenue, Expenses and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to the Financial Statements	10-18
Independent Auditor's Report on Compliance and Internal Control	19-21

Officials

Name	Title	Representing
John Mardis	Chairperson	Small cities
Barbara Leestamper	Chairperson Pro-Tem	Black Hawk County
Brian Heath	Secretary/Treasurer	City of Cedar Falls
Harold Getty	Member	City of Waterloo
Tim Shea	Member	City of Waterloo
Gary Lee Wilcox	Administrator	

Independent Auditor's Report

Members

Black Hawk County Solid Waste
Management Commission
Waterloo, Iowa

We have audited the accompanying statements of net assets of the Black Hawk County Solid Waste Management Commission at June 30, 2004 and 2003, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Black Hawk County Solid Waste Management Commission at June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9, during the year ended June 30, 2004, the Black Hawk County Solid Waste Management Commission adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2004 on our consideration of the Black Hawk County Solid Waste Management Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Management's Discussion and Analysis on Pages 4 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
September 10, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Black Hawk County Solid Waste Management Commission (Commission) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Commission's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- ◆ The Commission's operating revenue increased 18%, or \$680,717, from fiscal 2003 to fiscal 2004. Fees increased due to increased usage of the landfill.
- ◆ The Commission's operating expenses were 0.5%, or \$16,538, more in fiscal 2004 than in fiscal 2003.
- ◆ The Commission's net assets decreased 1%, or \$194,772, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The Black Hawk County Solid Waste Management Commission is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to the Commission's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Commission's financial activities.

The Statement of Net Assets presents information on the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The Statement of Revenue, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Commission's operating revenue and expenses, nonoperating revenue and expenses and whether the Commission's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Commission's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Commission financed its activities and how it met its cash requirements.

The Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE COMMISSION

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Commission's financial position. A summary of the Commission's net assets at June 30, 2004 and 2003 is presented below.

	2004	2003
Current assets	\$ 15,692,269	\$ 15,762,626
Restricted assets	4,945,527	4,738,145
Noncurrent, noncapital assets	480,027	480,027
Capital assets at cost, less accumulated depreciation	<u>2,699,322</u>	<u>3,120,706</u>
Total Assets	<u>23,817,145</u>	<u>24,101,504</u>
Current liabilities	541,080	586,297
Noncurrent liabilities	<u>2,948,837</u>	<u>2,993,207</u>
Total Liabilities	<u>3,489,917</u>	<u>3,579,504</u>
Net Assets		
Invested in capital assets	2,699,322	3,120,706
Restricted	4,945,527	4,738,145
Unrestricted	<u>12,682,379</u>	<u>12,663,149</u>
Total Net Assets	<u>\$ 20,327,228</u>	<u>\$ 20,522,000</u>

A portion of the Commission's net assets (24%) is restricted for closure and postclosure care. State and federal laws and regulations require the Commission to place a final cover on the landfill sites and perform certain maintenance and monitoring functions at the landfill sites for a minimum of 30 years after closure. The invested in capital assets (13%, e.g., land, buildings and equipment) are resources allocated to capital assets. The remaining net assets (63%) are the unrestricted net assets that can be used to meet the Commission's obligations as they come due.

Statement of Revenue, Expenses and Changes in Net Assets

Operating revenue is received for fees and tonnage taxes from accepting solid waste from the residents and businesses in the county. Operating expenses are expenses paid to operate the landfill. Nonoperating revenue and expenses are for interest income, changes in the fair value of investments and rent from leasing land owned for future development. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenue, expenses and changes in net assets for the years ended June 30, 2004 and 2003 is presented below:

	2004	2003
Operating revenue	\$ 4,450,854	\$ 3,770,137
Operating expenses	<u>3,177,113</u>	<u>3,160,575</u>
Income From Operations	1,273,741	609,562
Net nonoperating revenue	<u>531,034</u>	<u>1,101,457</u>
Change in Net Assets	1,804,775	1,711,019
Distributions to member organizations	(1,999,547)	(1,999,547)
Net Assets - Beginning of Year	<u>20,522,000</u>	<u>20,810,528</u>
Net Assets - End of Year	<u>\$ 20,327,228</u>	<u>\$ 20,522,000</u>

The Statement of Revenue, Expenses and Changes in Net Assets reflects a positive year but with a decrease in the net assets at the end of the fiscal year due to a distribution to the member organizations.

In fiscal 2004, operating revenue increased by \$680,717, or 18%, primarily a result of increased usage of the landfill. Operating expenses increased by \$16,538, or 0.5%. The increase was primarily a result of the amortization of the landfill site due to increased usage.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, noncapital financing, capital and related financing and investing activities. Cash provided by operating activities includes landfill fees and tonnage taxes reduced by payments to employees and to suppliers. Cash used from capital and related financing activities includes distributions to member organizations and the purchase of capital assets. Cash used by investing activities includes purchase of certificates of deposits and interest income.

CAPITAL ASSETS

At June 30, 2004, the Commission had approximately \$2,699,000 invested in capital assets, net of accumulated depreciation of approximately \$8,348,000. Depreciation and land amortization charges totaled \$686,331 for fiscal 2004. More detailed information about the Commission's capital assets is presented in Note 3 to the financial statements.

ECONOMIC FACTORS

The Commission's primary source of revenue is landfill fees. Landfill fees are expected to remain the same for fiscal year 2005. Operating expenditures are also expected to remain about the same as expenditures for fiscal year 2004. The Commission is expecting to incur capital expenditures related to the expansion of Cell X during fiscal year 2005.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Black Hawk County Solid Waste Management Commission, 1407 Independence Avenue, Waterloo, Iowa 50703.

Basic Financial Statements



At June 30, 2004 and 2003

	2004	2003
Assets		
Current Assets		
Cash.....	\$ 1,928,307	\$ 6,896,979
Certificates of deposit.....	13,067,067	8,295,157
Receivables		
Trade accounts (net of allowance for doubtful accounts).....	265,067	229,419
Interest.....	421,685	333,738
Prepaid insurance.....	10,143	7,333
Total Current Assets	<u>15,692,269</u>	<u>15,762,626</u>
Noncurrent Assets		
Restricted Assets		
Cash for closure and postclosure care costs	—	1,733,400
Certificate of deposit for closure and postclosure care.....	1,932,933	—
Amounts held by trustee	<u>3,012,594</u>	<u>3,004,745</u>
Total Restricted Assets	<u>4,945,527</u>	<u>4,738,145</u>
Capital Assets, Net of Accumulated Depreciation	2,699,322	3,120,706
Investment in Farmland	<u>480,027</u>	<u>480,027</u>
Total Noncurrent Assets	<u>8,124,876</u>	<u>8,338,878</u>
Total Assets	<u>\$ 23,817,145</u>	<u>\$ 24,101,504</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable		
Trade	\$ 63,341	\$ 110,833
Community awards to 28E members	<u>477,739</u>	<u>475,464</u>
Total Current Liabilities	<u>541,080</u>	<u>586,297</u>
Noncurrent Liabilities		
Estimated accrued cost of landfill closure and postclosure care	<u>2,948,837</u>	<u>2,993,207</u>
Total Liabilities	<u>3,489,917</u>	<u>3,579,504</u>
Net Assets		
Invested in capital assets.....	2,699,322	3,120,706
Restricted for closure and postclosure care - EPA.....	3,012,594	3,004,745
- Iowa DNR	1,932,933	1,733,400
Unrestricted	<u>12,682,379</u>	<u>12,663,149</u>
Total Net Assets	<u>20,327,228</u>	<u>20,522,000</u>
Total Liabilities and Net Assets	<u>\$ 23,817,145</u>	<u>\$ 24,101,504</u>

See accompanying notes to the financial statements.

Statements of Revenue, Expenses and Changes in Net Assets

Years Ended June 30, 2004 and 2003

	2004	2003
Operating Revenue		
Landfill fees	\$ 4,280,557	\$ 3,629,936
Commission's share of tonnage tax	170,297	140,201
Total Operating Revenue	<u>4,450,854</u>	<u>3,770,137</u>
Operating Expenses		
Landfill operating fees	1,529,115	1,510,019
Current amount of total estimated cost of landfill closure and postclosure care	95,130	94,205
Changes in accounting estimates for remaining landfill capacity and cost of future closure and postclosure care	(37,271)	40,877
Depreciation and amortization	686,331	607,733
Payroll and related expenses	81,435	79,099
Administrative contract services	30,855	33,344
Professional fees	162,169	165,962
Insurance	12,571	11,833
Office supplies, postage and telephone	8,246	5,223
Projects and awards funded by tonnage tax	124,819	121,528
Other awards	480,014	487,730
Other	3,699	3,022
Total Operating Expenses	<u>3,177,113</u>	<u>3,160,575</u>
Operating Income	<u>1,273,741</u>	<u>609,562</u>
Nonoperating Revenue (Expenses)		
Interest income	653,742	1,034,369
Net increase (decrease) in fair value of investments	(129,062)	55,111
Other revenue	9,266	13,391
Other expenses	(2,912)	(1,414)
Net Nonoperating Revenue	<u>531,034</u>	<u>1,101,457</u>
Change in Net Assets	1,804,775	1,711,019
Distributions to member organizations	(1,999,547)	(1,999,547)
Net Assets - Beginning of Year	<u>20,522,000</u>	<u>20,810,528</u>
Net Assets - End of Year	<u>\$ 20,327,228</u>	<u>\$ 20,522,000</u>

See accompanying notes to the financial statements.

Statements of Cash Flows

Years Ended June 30, 2004 and 2003

	2004	2003
Cash Flows From Operating Activities		
Cash received from landfill fees	\$ 4,244,909	\$ 3,594,165
Cash collected for tonnage and sales taxes	459,018	379,903
Cash paid to other governments for tonnage and sales taxes	(288,721)	(239,702)
Cash paid to or on behalf of employees	(81,435)	(79,099)
Cash paid to suppliers	<u>(2,399,515)</u>	<u>(1,991,781)</u>
Net Cash Provided by Operating Activities	<u>1,934,256</u>	<u>1,663,486</u>
Cash Flows From Noncapital Financing Activities		
Other nonoperating income sources	9,266	13,391
Other nonoperating expenses	<u>(2,912)</u>	<u>(1,414)</u>
Net Cash Provided by Noncapital Financial Activities	<u>6,354</u>	<u>11,977</u>
Cash Flows From Capital and Related Financing Activities		
Payments for acquisition of property and equipment	(264,947)	(25,679)
Payments for reclamation costs	(102,229)	(83,980)
Payments for closure costs	—	(44,000)
Distributions to member organizations	<u>(1,999,547)</u>	<u>(1,999,547)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(2,366,723)</u>	<u>(2,153,206)</u>
Cash Flows From Investing Activities		
Payment for purchase of investments	(15,801,272)	(964,488)
Cash received on sale/maturity of certificates of deposit and investments	7,801,285	8,637,183
Interest received	<u>1,724,028</u>	<u>330,661</u>
Net Cash Provided by (Used in) Investing Activities	<u>(6,275,959)</u>	<u>8,003,356</u>
Net Increase (Decrease) in Cash	<u>(6,702,072)</u>	<u>7,525,613</u>
Cash at Beginning of Year	<u>8,630,379</u>	<u>1,104,766</u>
Cash at End of Year	<u>\$ 1,928,307</u>	<u>\$ 8,630,379</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 1,273,741	\$ 609,562
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	234,075	235,124
Amortization of site costs	452,256	372,609
Change in accounting estimate for future landfill closure and postclosure care costs	(37,271)	40,877
Current amount of total estimated cost of landfill closure and postclosure	95,130	94,205
Change in Assets and Liabilities		
Increase in receivables	(35,648)	(35,771)
Increase in prepaid insurance	(2,810)	(738)
Increase (decrease) in accounts payable	(47,492)	52,511
Increase in awards payable to members	<u>2,275</u>	<u>295,107</u>
Net Cash Provided by Operating Activities	<u>\$ 1,934,256</u>	<u>\$ 1,663,486</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Nature of Business

The Black Hawk County Solid Waste Management Commission (Commission) owns a landfill site in Black Hawk County which is operated and maintained under contract for a monthly fee computed in accordance with the contract fee schedule. The contract is with Waste Tech Inc. through June 30, 2006. The Commission grants credit to governmental and private sector customers, substantially all of whom are located in Black Hawk County.

The Commission functions as a "Public Agency" as defined in Chapter 28E of the Code of Iowa. The Commission was formed as a joint venture between Black Hawk County and several municipalities within the County. It is operated as an enterprise fund, and accordingly, the financial statements are presented on the accrual basis of accounting. The local governments which formed the Commission are liable for unpaid debts of the Commission should the Commission be unable to meet its obligations.

Reporting Entity

For financial reporting purposes, the Black Hawk County Solid Waste Management Commission has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Commission has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Commission are such that exclusion would cause the Commission's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Commission to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Commission. The Black Hawk County Solid Waste Management Commission has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of the Commission are organized as an enterprise fund. Enterprise funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (2) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus

Enterprise Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities, whether current or noncurrent, associated with their activity are included on their statements of net assets. The operating statements present increases (revenue) and decreases (expenses) in net total assets. In reporting the financial activity of its proprietary fund, the Commission applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standard Boards Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Commission distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the Commission's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenses.

Cash and Certificates of Deposit

All of the Commission's deposits at June 30, 2004 were entirely covered by federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. The Chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds. At June 30, 2004, the carrying amount of the Commission's deposits was \$16,928,307. The Commission has a written investment policy and is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the members of the Commission and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

For purposes of the statements of cash flows, the Commission considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The Commission excludes all restricted investments held by a trustee from classification as cash equivalents.

Restricted Assets

Funds set aside for payment of closure and postclosure care costs are classified as restricted.

Income Taxes

In accordance with Internal Revenue Code Section 501(c)(1), the Commission is exempt from federal income taxes, therefore, no provision for income taxes is reflected in the financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Capital Assets

Capital assets are stated at cost and are capitalized if their cost is generally greater than \$2,500 and estimated useful life is more than one year. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed over the same period. The Commission follows the general policy of depreciating building and equipment costs and certain land development costs under the straight-line method over the shorter of their estimated useful lives or the remaining life of the landfill. Although the estimated life of the current landfill site was shorter at June 30, 2004, the building and equipment costs are being depreciated over the following estimated useful lives because management plans to use those assets on an adjacent site when the current site is filled.

Type	Estimated Useful Lives
Land development costs.....	5 - 20 Years
Building	20 Years
Equipment.....	5 Years

Depreciation expense charged to operations was \$234,075 and \$235,124 for the years ended June 30, 2004 and 2003, respectively.

Certain land development costs and the cost of the landfill site, net of its estimated salvage value, are being amortized each year on the basis of the number of tons of waste disposed as a percentage of the total site capacity. Amortization expense of the site and its development costs for the years ended June 30, 2004 and 2003 were \$452,256 and \$372,609, respectively.

Landfill Closure and Postclosure Costs

As disclosed further in Note 4, the estimated total current cost of closure and postclosure care is recognized as an expense and as a liability in each period in which solid waste is accepted, based upon landfill usage rather than the passage of time. Amounts held by a trustee to provide financial assurances for landfill closure and postclosure care of areas under EPA regulation are stated at fair value in the asset section of the accompanying statements of net assets rather than as a reduction of the estimated liability for landfill closure and postclosure care.

(2) Cash Flow Statement Supplementary Information

	2004	2003
Schedule of Noncash Investing and Financing Activities		
Interest Income Added to Certificates of Deposit	<u>\$ —</u>	<u>\$ 574,686</u>
Investment Income Added to Restricted Trust Assets	<u>\$ 136,924</u>	<u>\$ 127,002</u>
Net Increase (Decrease) in the Fair Value of Restricted Trust Assets	<u>\$ (129,062)</u>	<u>\$ 55,111</u>

Notes to the Financial Statements

(3) Capital Assets

Capital asset activity for the years ended June 30, 2004 and 2003 was as follows:

	Balance June 30, 2002	Increase	Decrease	Balance June 30, 2003	Increase	Decrease	Balance June 30, 2004
Capital Assets Not Being Depreciated							
Construction in progress.....	\$ 172,636	\$ 4,912	\$ —	\$ 177,548	\$ 198,392	\$ —	\$ 375,940
Capital Assets Being Depreciated							
Landfill site.....	1,061,514	—	—	1,061,514	—	—	1,061,514
Land development costs.....	8,626,831	7,806	—	8,634,637	65,291	—	8,699,928
Building.....	745,621	12,960	—	758,581	—	—	758,581
Equipment	149,893	—	—	149,893	1,264	—	151,157
Total Capital Assets Being Depreciated..	10,583,859	20,766	—	10,604,625	66,555	—	10,671,180
Less Accumulated Depreciation for							
Landfill site.....	818,069	—	—	818,069	—	—	818,069
Land development costs.....	5,771,939	556,343	—	6,328,282	635,734	—	6,964,016
Building.....	344,422	39,873	—	384,295	39,873	—	424,168
Equipment	119,305	11,516	—	130,821	10,724	—	141,545
Total Accumulated Depreciation..	7,053,735	607,732	—	7,661,467	686,331	—	8,347,798
Net Capital Assets Being Depreciated...	3,530,124	(586,966)	—	2,943,158	(619,776)	—	2,323,382
Net Capital Assets	\$ 3,702,760	\$ (582,054)	\$ —	\$ 3,120,706	\$ (421,384)	\$ —	\$ 2,699,322

(4) Assets Held by Trustee

Federal regulations require that the Commission establish a trust for the purpose of providing financial security for 30 years of postclosure care (see Note 5). The Trust's deposits and investments are stated at fair value and are summarized as follows at June 30, 2004 and 2003:

	Cost	Fair Value	Unrealized Appreciation
June 30, 2004			
U.S. Treasury money market fund	\$ 365,798	\$ 365,798	\$ —
U.S. Treasury securities	2,612,572	2,646,796	34,224
	\$ 2,978,370	\$ 3,012,594	\$ 34,224
June 30, 2003			
U.S. Treasury money market fund	\$ 385,197	\$ 385,197	\$ —
U.S. Treasury securities	2,456,263	2,619,548	163,285
	\$ 2,841,460	\$ 3,004,745	\$ 163,285

Notes to the Financial Statements

(4) Assets Held by Trustee

The calculation of realized gains or losses is independent of the calculation of the net change in the fair value of the investments.

During the year ended June 30, 2004, the Commission realized gains of \$4,973 upon the maturity of certain U.S. Treasury securities. During the year ended June 30, 2003, the Commission realized losses of \$2,067 upon the maturity of certain U.S. Treasury securities.

The Trust's investments are categorized to give an indication of the level of risk assumed by the Commission at year end. The U.S. Treasury Securities are Category 3 investments which means the investments are uninsured or unregistered and held by the trustee but not in the Commission's name. Money market mutual funds are not subject to risk categorization. See Note 1 for information regarding the Commission's investment policy.

The Commission can only receive cash from the trust upon the approval of the EPA. These are reported as restricted assets and restricted net assets on the accompanying statements of net assets.

(5) Estimated Closure and Postclosure Care Costs

The landfill site is currently regulated by the EPA for hazardous wastes and by the Iowa Department of Natural Resources (DNR) for nonhazardous wastes disposed of at the site.

DNR regulations require the reclamation of the landfill site by placing a final two-foot minimum earth covering over the project site. A portion of the total \$2,190,000 estimated cost of closure and postclosure care of the nonhazardous portion of the site is accrued each year based on the number of acre feet of landfill space used as a percentage of the total site capacity.

During the years ended June 30, 2004 and 2003, \$95,130 and \$94,205, respectively, was accrued based on such usage, \$0 and \$44,000, respectively, were incurred for closure costs and \$51,000 and \$158,310, respectively, were the changes in the estimate of future closure and postclosure care costs, bringing the accrued liability for landfill closure and postclosure care costs under DNR regulations to \$2,005,337 and \$1,859,207 at June 30, 2004 and 2003, respectively.

The current active landfill cell was first put into use during November, 2000 and was estimated to be approximately 66% filled as of June 30, 2004. As of that date, the Commission and its consulting engineer estimate the life of the current landfill cell to be approximately two years.

The Commission has finished closing the hazardous waste area and received EPA approval of the closure. The EPA, in addition to requiring that a trust fund be established to provide funds for postclosure care (see Note 4), has instructed the Commission on what steps the EPA feels will be necessary to monitor the hazardous waste site over the 30-year postclosure period.

Notes to the Financial Statements

(5) Estimated Closure and Postclosure Care Costs

The Commission annually reevaluates its estimates of the remaining landfill capacity and of the future closure and postclosure care costs of certain areas of the landfill which were either in the process of closure or in postclosure as of June 30. The results of changes in those estimates were recognized as a decrease in operating expenses of \$88,271 for the year ended June 30, 2004 and an increase in operating expenses of \$40,877 for the year ended June 30, 2003. Amounts incurred for postclosure care totaled \$102,229 and \$83,981, respectively, for the years ended June 30, 2004 and 2003. As a result of correspondence with the EPA and the consulting engineer, the Commission has estimated the total remaining monitoring costs to be \$943,500 and \$1,134,000 at June 30, 2004 and 2003, respectively.

A summary of the estimated accrued liability for landfill closure and postclosure care costs at June 30, 2004 and 2003 is as follows:

	2004	2003
Hazardous area.....	\$ 943,500	\$ 1,134,000
Nonhazardous area.....	2,005,337	1,859,207
Total.....	<u>\$ 2,948,837</u>	<u>\$ 2,993,207</u>

The above costs are reflected as liabilities in the accompanying statements of net assets and are based on an estimate of what it would cost to perform all closure and postclosure care in 2004. Actual costs may be higher due to inflation, changes in technology or changes in laws and regulations. In addition to the above costs, if as a result of monitoring the site, leaks of hazardous waste are discovered, the cost of compliance with regulations could become extremely large. The amount of any liability is not susceptible to estimation until it has been determined that a leak has occurred and the extent of that leak can be determined. Because no known leaks had occurred through the date of this report and the ultimate effects of any potential future leaks cannot presently be determined, no provision for any resultant liability has been made in the financial statements.

The amounts recorded on the statements of net assets for closure and postclosure liabilities differ from the amounts reported in its Annual Closure Postclosure Estimate to the DNR due to a 20% estimated contingency made by the Commission's contract engineer for unknown costs at this point. Generally accepted accounting principles preclude the Commission from recording contingent liabilities unless it is probable that a liability has been incurred.

Chapter 455B.306(8)(b) of the Code of Iowa requires permit holders of municipal solid waste landfills to maintain separate closure and postclosure care accounts to accumulate resources for the payment of closure and postclosure care costs. The Commission has begun accumulating resources to fund these costs and, at June 30, 2004, assets of \$1,932,933 are restricted for these purposes, of which \$1,650,000 is for closure and \$682,000 is for postclosure care. They are reported as restricted cash and restricted net assets on the statements of net assets.

Also, pursuant to Chapter 567-111.3(3) of the Iowa Administrative Code (IAC), since the estimated closure and postclosure care costs are not fully funded, the Commission is required to demonstrate financial assurance for the unfunded costs. The Commission has adopted the dedicated fund mechanism.

(5) Estimated Closure and Postclosure Care Costs

Chapter 567-111.8(7) of the IAC allows a government to choose the dedicated fund mechanism to demonstrate financial assurance and use the accounts established to satisfy the closure and postclosure care account requirements. Accordingly, the landfill is not required to establish closure and postclosure care accounts in addition to the accounts established to comply with the dedicated fund financial assurance mechanism.

(6) Risk Management

The Commission is a member in the Iowa Communities Assurance Pool (Pool), as allowed by Chapter 331.301 of the Code of Iowa. The Pool is a local government risk-sharing pool whose 500 members include various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Commission's property and casualty contributions to the risk pool are recorded as prepaid expense at the time of payment to the risk pool and allocated evenly to expense during the year. During the years ended June 30, 2004 and 2003, the Commission made payments of \$15,380 and \$12,508, respectively, to the risk pool.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

(6) Risk Management

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Commission does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2004 and 2003, no liability was recorded in the Commission's financial statements. As of June 30, 2004, settled claims had not exceeded the risk pool or reinsurance company coverage in any of the past three fiscal years.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. After the sixth year, the member is refunded 100% of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Commission has discontinued purchasing Pollution Liability Insurance Coverage and instead, will self-insure this potential liability. The amount of any such liability is not susceptible to estimation until it has been determined that pollution has occurred and the extent of that pollution can be determined. Therefore, no provision for any resultant liability has been made in the accompanying financial statements.

(7) Commitments

The Commission has begun a second preliminary engineering study in connection with future landfill expansion on land located adjacent to the current landfill site. As of June 30, 2004, the Commission had incurred \$356,055 of costs associated with this project. An estimate of total expansion costs was not available at June 30, 2004.

The Commission has also begun developing an area adjacent to the current landfill site to prolong the life of the current cell. As of June 30, 2004, the Commission had incurred \$19,885 of costs associated with this project. An estimate of the total costs of this project was not available at June 30, 2004.

(8) Related Party Transactions

As described in Note 1, the Commission operates as a joint venture (28E organization) between several governmental entities. The Commission earns revenue and grants credit to these entities under normal credit terms.

During the years ended June 30, 2004 and 2003, the Commission provided \$480,014 and \$487,730, respectively, to the members of the 28E organization for recycling projects.

During each of the years ended June 30, 2004 and 2003, the Commission made distributions of net assets to the 28E members totaling \$1,999,547.

(9) Accounting Change

During the year ended June 30, 2004, the Commission implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. The Commission has applied the provisions of these statements to the financial statements for the year ended June 30, 2003 for purposes of comparison.

Implementation of these statements has no effect on the beginning balances of the Commission.

Independent Auditor's Report on Compliance and Internal Control ---

Members

Black Hawk County Solid Waste
Management Commission
Waterloo, Iowa

We have audited the financial statements of the Black Hawk County Solid Waste Management Commission as of and for the year ended June 30, 2004, and have issued our report thereon dated September 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The following comments involving statutory and other legal matters about the Commission's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Commission. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

- A. **Official Depositories** - A resolution naming official depositories has been approved by the Commission. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- B. **Questionable Disbursements** - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- C. **Travel Expense** - No disbursements of the Black Hawk County Solid Waste Management Commission money for travel expenses of spouses of Commission officials or employees were noted.

- D. **Commission Minutes** - No transactions were found that we believe should have been included in the minutes but were not.
- E. **Deposits and Investments** - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Commission's investment policy.
- F. **Solid Waste Tonnage Fees Retained** - We noted no disbursements or retention of solid waste fees which were not in accordance with the provisions of Chapter 455B.310 of the Code of Iowa.
- G. **Financial Assurance** - The Commission has demonstrated financial assurance for closure and postclosure care costs as provided in Chapter 111.6(9), Local Government Dedicated Fund, of the Iowa Administrative Code.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Black Hawk County Solid Waste Management Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Black Hawk County Solid Waste Management Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described below.

04-II-4-1 - Sales Tax Overpayment

Finding - During our audit, we discovered that sales tax had been overpaid \$8,752.89 during the year. During the preparation of a quarterly sales tax return, the Commission's bookkeeping firm made an error that caused the overpayment.

Auditor's Recommendation - We recommend that either the Commission develop procedures to have the sales tax returns compared to the sales and sales tax reports before they are filed or require its bookkeeping firm to implement procedures so that someone other than the preparer of the sales tax returns review them for accuracy prior to submitting them to the Commission for filing.

Commission's Response - We will review options for implementing the necessary additional procedures.

Conclusion - Response accepted.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

In addition to the above, the following item, which is not a reportable condition, is an issue which we wish to bring to management's attention.

Releasing Funds From EPA Trust Account

The Commission is required to maintain funds in a trust account equal to the estimated postclosure liability of the approved area. Currently, the trust is overfunded by approximately \$2,070,000. We recommend that the Commission request the approval of EPA for a reimbursement of prior monitoring costs from the trust account.

This report is intended solely for the information of the Commission members, management, the United States Environmental Protection Agency and the Iowa Department of Natural Resources and is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
September 10, 2004